

Message Text

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64

ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-03 NSC-07 RSC-01

CIEP-01 TRSE-00 SS-14 STR-01 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-10 NSAE-00 XMB-01 OPIC-02 LAB-01

SIL-01 L-02 H-01 PA-01 PRS-01 USIA-04 DRC-01 /073 W

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R 072225Z OCT 74

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 593

INFO AMEMBASSY BOGOTA

AMEMBASSY CARACAS

AMEMBASSY LA PAZ

AMEMBASSY LIMA

AMEMBASSY QUITO

AMEMBASSY BRASILIA

AMCONSUL RIO DE JANEIRO

C O N F I D E N T I A L SANTIAGO 6118

EO 11652: GDS

TAGS: EINV, CI, PE, VE, BO, CO, EQ, CI

SUBJ: CHILE, THE ANDEAN PACT, AND FOREIGN INVESTMENT

1. SUMMARY: GOC HAS RUN INTO HEAVIER WEATHER THAN WAS
ORIGINALLY ANTICIPATED WITH ANDEAN PACT PARTNERS OVER CHILE'S
FOREIGN INVESTMENT CODE. NEVERTHELESS, ALL SIGNS HERE ARE THAT
CHILE WILL BE UNWILLING TO MAKE ANY SIGNIFICANT MODIFICATION IN
ITS EXISTING INVESTMENT POLICY TO PLACATE ANDEAN PACT CRITICISM.
MOST GOC OFFICIALS BELIEVE THAT FACE-SAVING ACCOMMODATION
WITHIN PACT IS POSSIBLE FAIRLY SOON AND ARE WORKING FOR THAT END;
OTHERS, FEELING CONFIDENT THAT ANDEAN PACT WILL NOT THROW CHILE
OUT, FORESEE LONG IMPASSE AND ARE QUITE CONTENT TO FOREGO ANDEAN
GROUP "BENEFITS" SUCH AS COMPLEMENTATION AGREEMENT DURING THAT
PERIOD. END SUMMARY.

2. IT IS EMBASSY'S IMPRESSION BASED ON CONVERSATIONS WITH
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MINISTER ECONOMIC COORDINATION RAUL SAEZ, ECONOMIC ADVISOR TO

FOREIGN MIN RICARDO CLARO, AND ALEXANDRO JARA (CHILE'S REP ON ANDEAN PACT COMMISSION) THAT THEY UNDERESTIMATE THE AMOUNT OF OPPOSITION WHICH CHILE'S FOREIGN INVESTMENT CODE WOULD AROUSE AMONG OTHER PACT MEMBERS. THEY EXPECTED PERU TO BE INTRANSIGENT BUT SEEM TO HAVE MISCALCULATED ON VENEZUELA'S POSITION. OPERATING ON THE ASSUMPTION THAT PERU WOULD BE THE ONLY HARDLINER, THEY THOUGHT THAT AFTER SOME NEGOTIATION CHILE WOULD GAIN AT LEAST TACIT PACT ACCEPTANCE FOR ITS POLICIES.

3. SAEZ AND JARA STILL TALK OPTIMISTICALLY IN PRIVATE ABOUT WORKING OUT SOME KIND OF COMPROMISE FORMULA WITHIN THE PACT MECHANISM DURING THE NEXT FEW MONTHS. AT THE SAME TIME, SAEZ AND OTHERS MAKE FREQUENT PUBLIC PRONOUNCEMENTS THAT CHILE HAS NO INTENTION OF MAKING SIGNIFICANT MODIFICATIONS IN ITS FOREIGN INVESTMENT CODE. THEY STILL SAY THAT MODIFICATIONS WILL SOON BE MADE IN DECISION 24 WHICH WILL IN EFFECT BRING IT INTO LINE WITH CHILE'S LAW. THEY CONTEND THAT ECUADOR, BOLIVIA, AND COLOMBIA WANT THESE CHANGES; THAT VENEZUELA CAN BE BARGAINED WITH; AND THAT PERU WILL NOT HOLD OUT ALONE. IN RETURN, CHILE WOULD MAKE SOME KIND OF COMMITMENT WHICH WOULD RECOGNIZE DECISION 24'S LEGAL FORCE HERE. (ALTHOUGH GOC HAS NOT MADE TOO MUCH OF IT IN PUBLIC, LAWYERS HERE CLAIM THAT CHILE IS NOT BOUND BY DECISION 24 BECAUSE RATIFICATION PROCESS UNDER ALLENDE VIOLATED CHILEAN CONSTITUTION.)

4. RICARDO CLARO, ONE OF THE MAJOR DRAFTERS OF CHILE'S CODE, LOOKS AT THE SITUATION DIFFERENTLY. HE DOUBTS CHILE WILL BE THROWN OUT OF THE PACT AND KNOWS GOC HAS NO INTENTION OF RESIGNING. DURING THE ENSUING IMPASSE CLARO EXPECTS THAT CHILE WILL BE EXCLUDED FROM PACT "BENEFITS" SUCH AS THE SECTORAL PROGRAM FOR AUTOMOBILE INDUSTRY. CLARO WELCOMES THIS BECAUSE HE THINKS HE SEES BETTER ECONOMIC OPPORTUNITIES FOR CHILE ELSEWHERE, SUCH AS CLOSER TIES WITH THE LARGE BRAZILIAN MARKET.

5. COMMENT: SINCE CHILE DOES NOT PLAN TO MODIFY ITS POLICY NOR QUIT THE PACT, AS SEEN FROM HERE A LONG STALEMATE SEEMS THE MOST LIKELY OUTCOME.
POPPER

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